Palestine Electric Company
Public Shareholding Company Limited

Consolidated Financial Statements
December 31, 2009

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Independent Auditors' Report to the Shareholders of Palestine Electric Company - Public Shareholding Company Limited

We have audited the accompanying consolidated financial statements of Palestine Electric Company - Public Shareholding Company Limited (the Company), which comprise the consolidated statement of financial position as at December 31, 2009 and the consolidated statement of income and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Palestine Electric Company - Public Shareholding Company Limited as at December 31, 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matters

Without qualifying our opinion, as explained in note (8) to the accompanying consolidated financial statements, the Palestinian Energy and Natural Resources Authority (PENRA) is the sole customer of the Company. To the date of the issuance of this report, PENRA did not provide the Company with the letter of credit as required by the power purchase agreement. In addition, as explained in note (9) to the accompanying consolidated financial statements, to the date of issuance of this report, the two remaining step-up transformers PENRA is committed to supply and install have not been supplied nor installed. PENRA did however make a commitment to supply and install these two transformers as soon as the situation in Gaza permits.

Furthermore, as explained in note (27) to the accompanying consolidated financial statements, the Company's assets which mainly comprise property, plant and equipment are located in Gaza. Recoverability of these assets from the Company's operation depends on the stabilization of the political and economic situation in Gaza.

Ernst + Young

March 24, 2010
Gaza, Palestine

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2009

	Notes	2009 U. $. $	2008 U.S. $
ASSETS			
Non-current assets			
Property, plant and equipment	4	90,732,759	97,529,517
Intangible asset	5	1,846,784	1,976,384
Prepayments	6	778,066	1,249,557
		93,357,609	100,755,458
Current assets			
Materials and inventories	7	5,269,389	4,069,047
Accounts receivable	8	9,642,336	17,403,021
Other current assets	9	6,729,608	3,480,601
Cash and bank accounts	10	19,011,167	11,726,616
		40,652,500	36,679,285
TOTAL ASSETS		134,010,109	137,434,743
EQUITY AND LIABILITIES			
Equity			
Paid-in share capital	11	60,000,000	60,000,000
Statutory reserve	12	5,376,118	4,677,775
Retained earnings		9,610,276	9,325,194
Total equity		74,986,394	74,002,969
Non-current liabilities			
Long term loan	13	34,542,000	46,548,000
Provision for employees' indemnity	14	1,407,972	1,238,820
		35,949,972	47,786,820
Current liabilities			
Current portion of long term loan	13	12,006,000	11,592,000
Other current liabilities	15	11,067,743	4,052,954
		23,073,743	15,644,954
Total liabilities		59,023,715	63,431,774
TOTAL EQUITY AND LIABILITIES		134,010,109	137,434,743

The attached notes 1 to 28 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
Year Ended December 31, 2009

	Notes	2009 U.S. $	2008 U.S. $
Revenues			
Capacity charges	16	29,361,312	29,108,352
Interest on PENRA receivables		449,641	762,973
		29,810,953	29,871,325
Operating expenses	17	(27,154,577)	(22,541,921)
		2,656,376	7,329,404
Force majeure government assistance	18	6,760,332	2,698,946
Finance costs		(2,360,574)	(4,399,583)
Loss from damaged materials		(209,833)	-
Other income	19	137,124	649,371
Profit for the year		6,983,425	6,278,138
Other comprehensive income		-	-
Total comprehensive income for the year		6,983,425	6,278,138
Basic and diluted earnings per share	20	0.12	0.10

The attached notes 1 to 28 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2009

	Paid-in Share Capital	Statutory Reserve	Retained Earnings	Total Equity
	U.S. $	U.S. $	U.S. $	U.S. $
2009				
Balance at January 1, 2009	60,000,000	4,677,775	9,325,194	74,002,969
Total comprehensive income for the year	-	-	6,983,425	6,983,425
Transfer to statutory reserve	-	698,343	(698,343)	-
Dividends (note 21)	-	-	(6,000,000)	(6,000,000)
Balance at December 31, 2009	60,000,000	5,376,118	9,610,276	74,986,394
2008				
Balance at January 1, 2008	60,000,000	4,049,961	7,274,870	71,324,831
Total comprehensive income for the year	-	-	6,278,138	6,278,138
Transfer to statutory reserve	-	627,814	(627,814)	-
Dividends (note 21)	-	-	(3,600,000)	(3,600,000)
Balance at December 31, 2008	60,000,000	4,677,775	9,325,194	74,002,969

The attached notes 1 to 28 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2009

	2009	2008
	U.S. $	U.S. $
Operating activities		
Profit for the year	6,983,425	6,278,138
Adjustments:		
Provision for employees' indemnity	328,705	257,512
Depreciation	6,965,241	6,961,023
Amortization	271,267	271,267
Finance costs	2,360,574	4,399,583
Loss from damaged materials	209,833	-
	17,119,045	18,167,523
Working capital adjustments:		
Accounts receivable	5,587,500	8,372,559
Other current assets	(3,249,007)	118,387
Materials and inventories	(1,410,175)	552,974
Other current liabilities	6,862,019	(2,382,191)
Employees' indemnity paid	(159,553)	(4,953)
Net cash flows from operating activities	24,749,829	24,824,299
Investing activities		
Force majeure payments received from PENRA	2,173,185	3,000,000
Purchase of property, plant and equipment	(168,483)	(102,587)
Net cash flows from investing activities	2,004,702	2,897,413
Financing activities		
Loan repayment	(11,592,000)	(10,008,000)
Finance cost payments	(2,030,750)	(4,069,759)
Dividends paid	(5,847,230)	(7,480,083)
Net cash flows used in financing activities	(19,469,980)	(21,557,842)
Net increase in cash and cash equivalents	7,284,551	6,163,870
Cash and cash equivalents at January 1	11,726,616	5,562,746
Cash and cash equivalents at December 31	19,011,167	11,726,616

The attached notes 1 to 28 form part of these consolidated financial statements.

1. General

Palestine Electric Company - Public Shareholding Company Limited (PEC/the Company) located in Gaza – Palestine was established and registered in Gaza on December 14, 1999, under registration number 563200971, in accordance with the Companies' Law of 1929.

The main objectives of PEC are to establish electricity generating plants in the territories of the Palestinian National Authority (PNA) and to carry out all the operations necessary for the production and generation of electricity.

Gaza Power Generating Private Limited Company (GPGC/the subsidiary) has an exclusive right from PNA to provide capacity and generate electricity in Gaza for the benefit of entities owned or controlled by the PNA for 20 years following commercial operation of its power plant with the opportunity to continue for up to two additional consecutive five-year periods. Commercial operation started on March 15, 2004.

The consolidated financial statements were authorized for issuance by the Company's board of directors on March 24, 2010.

2. Consolidated Financial Statements

The consolidated financial statements comprise the financial statements of the Company and its subsidiary, GPGC, as at December 31, 2009. The Company owns 99.99% of the share capital of GPGC. GPGC was established in Gaza as a private shareholding limited liability company, with an authorized share capital of 6,000,000 shares with U.S. $ 10 par value each, of which 5,999,800 shares are owned by PEC.

A subsidiary is a company over which the Company exercises control over the financial and operational policies.

3.1 Basis of Preparation

The consolidated financial statements of the Company and its subsidiary have been prepared in accordance with International Financial Reporting Standards.

The consolidated financial statements have been presented in U.S. Dollar, which is the functional currency of the Company.

The consolidated financial statements have been prepared under the historical cost convention.

3.2 Basis of Consolidation

The financial statements of the subsidiary, GPGC, are prepared for the same reporting year as the Company, using consistent accounting policies.

A subsidiary is fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continues to be consolidated until the date that such control ceases.

All intra-company balances, transactions, income and expenses and profits and losses resulting from intra-company transactions that are recognized in assets, are eliminated in full.

3.3 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except that the Company has adopted the following new and amended IFRS and IFRIC Interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Company.

IAS 1 - Presentation of Financial Statements (Revised)

The revised standard was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The standard separates owner and non-owner changes in equity and introduces the statement of the comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Company elected to present a single statement.

IAS 23 - Borrowing Costs (Revised)

IAS 27 - Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments)

IAS 32 - Financial Instruments: Presentation (Revised)

The following IFRS and IFRIC interpretations have been issued but are not yet mandatory, and have not been adopted by the Company:

IFRS 2 - Share-based Payments: Cash-settled share-based payments arrangements (Revised)
IFRS 3 - Business Combinations (Revised)
IFRS 9 - Financial Instruments
IAS 24 – Related Party Disclosures (Revised)
IAS 27 - Consolidated and Separate Financial Statements (Amendment)
IAS 32 - Classification of Rights Issues (Amendment)
IAS 39 - Financial Instruments: Recognition and Measurement
IFRIC 14 - Prepayments of a Minimum Funding Requirement (Amendment)
IFRIC 17 - Distributions on Non-cash Assets to Owners
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments

3.4 Estimates and Assumptions

The preparation of the financial statements in conformity with IFRS requires the use of accounting estimates and assumptions. It also requires management to exercise its judgment in the process of applying the Company's accounting policies.

The Company's management continually evaluates its estimates, assumptions and judgments based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates.

The Company's management reassesses the useful lives of tangible and intangible assets, and are adjusted if applicable, at each financial year end. The Company's management believes that the estimates and assumptions used are reasonable.

3.5 Summary of Significant Accounting Policies

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Capacity charges

Capacity charge revenues from the use of the power plant are recognized during the period in which electricity is available according to the power purchase agreement signed with PENRA. This results in revenue recognition approximating the straight-line requirements of IAS (17) on leases.

The Company applies IFRIC (4) which relates to arrangements that do not take the legal form of a lease but convey the right to use an asset in return for a payment or a series of payments. An arrangement conveys the right to use the asset if the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying asset. The right to control the use of the underlying asset is conveyed if any one of the following conditions is met:

- The purchaser has the ability or right to operate the asset or direct others to operate the asset in a manner it determines while obtaining or controlling more than an insignificant amount of the output or other utility of the asset.
- The purchaser has the ability or right to control physical access to the underlying asset while obtaining or controlling more than an insignificant amount of the output or other utility of the asset.
- Facts and circumstances indicate that it is remote that one or more parties other than the purchaser will take more than an insignificant amount of the output or other utility that will be produced or generated by the asset during the term of the arrangement, and the price that the purchaser will pay for the output is neither contractually fixed per unit of output nor equal to the current market price per unit of output as of the time of delivery of the output.

As the Palestinian Energy and Natural Resources Authority (PENRA) is the sole purchaser of the electricity generated from power plant at a price other than at market price and the price varies other than in response to market price changes, this variability is regarded by IFRIC (4) as capacity payments are being made for the right to use the power plant. Hence, such arrangement is accounted for in accordance with IAS (17) on leases. The power purchase agreement does not transfer substantially all the risks and rewards incidental to the Company's ownership of the power plant to PENRA. Therefore, the Company considered the arrangement of the power plant agreement as an operating lease and electrical capacity charges from the use of power plant to generate electricity as rental payment.

Interest revenues
Interest revenue is recognized as interest accrues using the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Government grants and assistance
Government grants and assistance are recognized where there is a reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

A government's grant and assistance that becomes receivable as compensation for expenses or losses incurred for the purpose of giving immediate financial support to the entity with no future related costs shall be recognized as income for the period in which it becomes receivable.

A government's grant and assistance in the form of a transfer of a non-monetary asset, which is intended for use of the entity, is recognized at fair value of that asset. Fair value is the amount for which an asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transactions.

Expense recognition
Expenses are recognized when incurred in accordance with the accrual basis of accounting.

Finance costs
Finance costs are recognized as an expense when incurred. Finance costs consists of interest using the effective interest method and other costs incurred in connection with borrowing of funds.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.
Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

	Useful lives (Years)
Power plant	20
Building	20
Motor vehicles	5
Computers and printers	4
Office equipment	4
Furniture and fixture	5

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalized and the carrying amount of the component that is replaced is written off. Other subsequent expenditures are capitalized only when they increase future economic benefits of the related items of property, plant and equipment. All other expenditures are recognized in the consolidated income statement as the expense is incurred.

Intangible assets

Intangible assets acquired through government grant and assistance are initially measured at fair value. Following initial recognition, intangible assets are carried net of any accumulated amortization and any accumulated impairment losses.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated income statement in the expense category consistent with the function of the intangible asset.

Right to use PENRA's transformers

Right to use PENRA's transformers is amortized using the straight-line method over a period equals the remaining useful life of the Power Plant at the time of acquiring the right to use these transformers being 17.5 years. Amortization expense is recognized in the consolidated income statement.

Fair values

For investments traded in an active market, fair value is determined by reference to quoted market bid prices at the close of business on the statement of financial position date.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

For unquoted equity investments, fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

Impairment and uncollectibility of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the consolidated income statement. Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the consolidated income statement;
- For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;

- For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Materials and inventories

Materials and inventories are stated at the lower of cost using the weighted average method or net realizable value. Costs are those amounts incurred in bringing each item of materials and inventories to its present location and condition.

Accounts receivable

Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash on hand, bank balances, and short-term deposits with an original maturity of three months or less net of restricted bank deposits.

Loans

After initial recognition, interest bearing loans are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated income statement when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the income statement.

Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provision for employees' indemnity

Provision for employees' indemnity is calculated in accordance with the labor law prevailing in Palestine, and the Company's internal policies, based on one-month salary for each year of employment.

Foreign currency

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the consolidated income statement.

4. Property, Plant and Equipment

2009	Power plant U.S. $	Building U.S. $	Motor vehicles U.S. $	Computers and printers U.S. $	Office equipment U.S. $	Furniture and fixture U.S. $	Total U.S. $
Cost							
At January 1, 2009	135,440,605	1,464,904	290,392	265,097	126,087	188,194	137,775,279
Additions	-	-	150,000	6,373	12,110	-	168,483
At December 31, 2009	135,440,605	1,464,904	440,392	271,470	138,197	188,194	137,943,762
Accumulated Depreciation							
At January 1, 2009	39,392,000	265,001	123,498	190,181	118,972	156,110	40,245,762
Depreciation charges for the year	6,772,020	73,153	60,622	38,663	3,567	17,216	6,965,241
At December 31, 2009	46,164,020	338,154	184,120	228,844	122,539	173,326	47,211,003
Net carrying amount							
At December 31, 2009	89,276,585	1,126,750	256,272	42,626	15,658	14,868	90,732,759

2008	Power plant U.S. $	Building U.S. $	Motor vehicles U.S. $	Computers and printers U.S. $	Office equipment U.S. $	Furniture and fixture U.S. $	Total U.S. $
Cost							
At January 1, 2008	135,440,605	1,464,904	219,569	242,195	117,225	188,194	137,672,692
Additions	-	-	70,823	22,902	8,862	-	102,587
At December 31, 2008	135,440,605	1,464,904	290,392	265,097	126,087	188,194	137,775,279
Accumulated Depreciation							
At January 1, 2008	32,619,969	191,753	76,523	142,921	115,591	137,982	33,284,739
Depreciation charges for the year	6,772,031	73,248	46,975	47,260	3,381	18,128	6,961,023
At December 31, 2008	39,392,000	265,001	123,498	190,181	118,972	156,110	40,245,762
Net carrying amount							
At December 31, 2008	96,048,605	1,199,903	166,894	74,916	7,115	32,084	97,529,517

Property, plant and equipment include U.S. $ 392,708 and U.S. $ 378,801 of fully depreciated assets as at December 31, 2009 and 2008, respectively, which are still used in the Company's operations.

5. Intangible Asset

	2009	2008
	U.S. $	U.S. $
Balance, beginning of the year	1,976,384	2,105,984
Amortization	(129,600)	(129,600)
Balance, end of year	1,846,784	1,976,384

Intangible asset represents the Company's right to use PENRA's four step-up transformers installed on October 1, 2006 for use by GPGC as part of the agreement made on September 2, 2006 between GPGC and PENRA. According to the agreement, PENRA would rectify all damages within the power plant resulted from the Israeli air strike during June 2006 to restore the power supply from the power plant by agreeing to purchase and install six step-up transformers to replace GPGC's destroyed transformers. These transformers will be owned by PENRA; and GPGC will have the right to use such transformers and will be responsible for their operation and maintenance. The right to use the transformers was initially recognized at the fair value of the four step-up transformers already installed, amounted to U.S. $ 2,267,984.

6. Prepayments

	2009	2008
	U.S. $	U.S. $
Land lease *	283,330	424,997
Legal fees **	494,736	824,560
	778,066	1,249,557

* The amount represents prepaid lease of the land on which the power plant is constructed. The land lease agreement was signed on November 25, 1999. The duration of the agreement is 30 years and may be further extended for an additional 10 years period. GPGC paid U.S. $ 1,700,000 for the first 12 years of the lease period after which the lease payments are fixed at U.S. $ 147,000 annually for the remaining 18 years. Movement on prepaid land lease is as follows:

	2009	2008
	U.S. $	U.S. $
Balance, beginning of the year	424,997	566,664
Amortization of land lease for the year	(141,667)	(141,667)
Balance, end of year	283,330	424,997

** This item represents the legal fees paid in relation with the long term loan. The fees are amortized over the loan original term of 11 years starting July 1, 2000. Amortization of legal fee is accounted for as finance costs. Movement during the year was as follows:

	2009	2008
	U.S. $	U.S. $
Balance, beginning of the year	824,560	1,154,384
Amortization for the year	(329,824)	(329,824)
Balance, end of year	494,736	824,560

7. Materials and Inventories

	2009	2008
	U.S. $	U.S. $
Spare parts	4,808,423	3,777,500
Consumables	136,530	242,291
Goods in transit	313,082	6,731
Others	11,354	42,525
	5,269,389	4,069,047

8. Accounts Receivable

	2009	2008
	U.S. $	U.S. $
Accounts receivable from capacity charges *	5,964,857	15,229,836
Force majeure government assistance receivable (note 18)	3,677,479	-
Receivables from force majeure claims **	-	2,173,185
	9,642,336	17,403,021

* As at December 31, 2009 and 2008, the aging analysis of the unimpaired accounts receivable from capacity charges to PENRA is as follows:

		Neither past due nor impaired	Past due but not impaired			
	Total		Less than 30 days	30-60 days	60-120 days	More than 120 days
	U.S.$	U.S.$	U.S.$	U.S.$	U.S.$	U.S.$
2009	5,964,857	2,465,211	-	-	-	3,499,646
2008	15,229,836	2,477,642	-	-	-	12,752,194

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. All GPGC capacity charges revenue from the use of power plant is generated from one customer, PENRA. According to the power purchase agreement, PENRA is required to provide GPGC with a letter of credit of U.S. $ 20,000,000 from a qualified bank as defined in the agreement. To the date of these financial statements, PENRA has not provided GPGC with the letter of credit, therefore, accounts receivable are unsecured.

** The item represents the remaining balance of force majeure claims made by the power plant construction contractor as a result of the political situation in Palestine which PENRA in a letter issued on July 18, 2003 committed itself to compensate GPGC with such amounts of force majeure claims. PENRA settled the amount of force majeure claims by making monthly payment of U.S. $ 250,000 to GPGC. The amounts of force majeure claims were settled in full during the year 2009.

9. Other Current Assets

	2009	2008
	U.S. $	U.S. $
Due from PENRA *	1,133,992	1,133,992
Value added tax receivables	6,169	4,525
Due from shareholders	4,385,411	189,942
Payment on account of establishing an associate (note 24)	70,000	-
Prepaid insurance premium	420,669	150,796
Advances to suppliers	680,248	1,966,537
Others	33,119	34,809
	6,729,608	3,480,601

* The amount represents the fair value of the two remaining transformers that PENRA is committed to supply and install in accordance with the agreement signed between GPGC and PENRA on September 2, 2006 (note 5). PENRA has made a commitment to supply and install the two transformers as soon as the situation in Gaza permits.

10. Cash and Bank Accounts

	2009	2008
	U.S. $	U.S. $
Cash on hand	19,365	92,910
Current accounts at banks in U.S. $	18,991,802	11,633,706
	19,011,167	11,726,616

During the year, interest rates on current bank accounts were reduced to zero % effective March 1, 2009. During the year ended December 31, 2008, current bank accounts earned interest at an average annual interest rate of % 1.39.

11. Paid-in Share Capital

	2009	2008
	U.S. $	U.S. $
Authorized share capital	60,000,000	60,000,000
Subscribed share capital	60,000,000	60,000,000
Paid-in share capital	60,000,000	60,000,000

The share capital of the Company comprises 60,000,000 shares at par value equal U.S. $ 1 for each share.

12. Statutory Reserve

The amount represents cumulative transfers of 10% of profits to statutory reserve in accordance with the Companies' Law.

13. Long Term Loan

On June 26, 2000, GPGC signed an agreement with Arab Bank P.L.C. for a long term loan of U.S. $ 90,000,000. On November 16, 2003, GPGC signed a restatement and amendment agreement with the Arab Bank relating to the long term loan and to obtain a working capital facility of U.S. $ 3,000,000. According to this agreement, Arab Bank and GPGC agreed that the long term loan will be repaid over 19 semi-annual installments the first of which started on December 31, 2004 and the last installment due on December 31, 2013. These installments are based on predetermined percentage of the loan amount. Further, the interest rate on the long term loan was reduced to six month LIBOR plus 2.25%.

Interest rate was further reduced during 2008 to six month LIBOR plus 2% effective from December 31, 2007.

Payment schedule of the loan is as follows:

Payable in:	U.S. $
2010	12,006,000
2011	12,600,000
2012	12,510,000
2013	9,432,000
	46,548,000

As a collateral for the loan, Arab Bank has a security pledge over all GPGC assets and all of GPGC shares owned by PEC. PEC's shares traded on the Palestinian Securities Exchange are not part of this security pledge.

The main financial covenants of the loan agreement include keeping certain financial ratios before any distribution of dividends is approved, maintaining current corporate existence of the Company, investing only in assets allowed by the loan agreement and not incurring indebtedness unless previously approved by Arab Bank.

14. Provision for Employees' Indemnity

Movement on the provision for employees' end of service indemnity during the year was as follows:

	2009	2008
	U.S. $	U.S. $
Balance, beginning of the year	1,238,820	986,261
Additions	328,705	257,512
Payments	(159,553)	(4,953)
Balance, end of year	1,407,972	1,238,820

15. Other Current Liabilities

	2009	2008
	U.S. $	U.S. $
Due to maintenance contractor	4,277,144	-
Provision for maintenance	2,735,487	-
Dividends payable	1,836,281	1,683,511
Due to Consolidated Contractors Company	34,023	371,108
Due to United Engineering Services S.A.	160,000	-
Payroll income tax *	503,225	503,225
Accrued expenses	143,036	135,761
Provision for employees' vacations	186,985	166,417
Other provisions	1,191,562	1,192,932
	11,067,743	4,052,954

* The Company did not withhold income tax on employees' salaries based on the presidential decree issued on June 26, 2007 exempting all tax payers of southern governorates (Gaza Strip) from taxes.

16. Capacity Charges

The amount represents revenues from capacity charges invoices issued by GPGC for the use of power plant to generate electric capacity for the benefit of PENRA according to the power purchase agreement, which is considered an operating lease under IFRIC (4) as further explained in accounting policies note (3.5). Capacity charges are materially straight-line over the life of the plant which results in revenue recognition approximating the straight-line requirements of IAS (17) on leases. According to the agreement, PENRA shall pay for all the electric capacity available from the use of GPGC's power plant, regardless of the extent to which PENRA can absorb that capacity, for a predetermined price set out in the power purchase agreement for each operating year. In addition, PENRA shall, at all times, supply and deliver all the fuel required to generate the power needed.

17. Operating Expenses

	2009	2008
	U.S. $	U.S. $
Salaries and wages	3,852,740	3,862,954
Employees' indemnity	328,705	257,512
Board of directors remuneration	169,500	140,000
Employees' insurance	108,315	117,365
Development and technical advisory services	2,553,000	2,112,155
Travel and transportation	526,267	534,126
Power plant insurance	798,622	730,008
Power plant operation and maintenance	9,034,821	5,965,108
Depreciation	6,965,241	6,961,023
Amortization of intangible asset	129,600	129,600
Amortization of land lease	141,667	141,667
Professional and consultancy expenses	395,233	391,988
Telephone and fax	118,872	130,660
Legal fees	21,142	20,000
Registration fees	25,222	25,748
Rent	7,734	15,949
Office supplies	87,068	72,015
Advertisements	26,834	14,653
Security service costs	1,586,344	769,407
Miscellaneous	277,650	149,983
	27,154,577	22,541,921

18. Force Majeure Government Assistance

The item represents financial assistance provided from PENRA to GPGC to cover force majeure events causing GPGC to incur additional maintenance costs as results of the political and security situation in Gaza. GPGC received U.S. $ 3,082,853 during the year and an amount of U.S. $ 3,677,479 is receivable as of December 31, 2009 (note 8).

19. Other Income

	2009	2008
	U.S. $	U.S. $
Interest income	4,586	102,083
Foreign currency exchange differences	130,129	332,154
Others	2,409	215,134
	137,124	649,371

20. Basic and Diluted Earnings Per Share

	2009	2008
	U.S. $	U.S. $
Profit for the year	6,983,425	6,278,138
	Shares	Shares
Weighted average of subscribed share capital during the year	60,000,000	60,000,000
	U.S. $	U.S. $
Basic and diluted earnings per share	0.12	0.10

Basic earnings per share is calculated by dividing profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the Company (after adjusted for income or expenses associated with the dilutive potential shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares

21. Dividends

PEC's general assembly in its meeting held on April 25, 2009, approved the proposed dividends distribution by the Company's board of directors of U.S. $ 6,000,000 for the year 2008, the equivalent of 10% of paid in capital.

PEC's general assembly in its meeting held on April 21, 2008, approved the proposed dividends distribution by the Company's board of directors of U.S. $ 3,600,000 for the year 2007, the equivalent of 6% of paid in capital.

22. Related Party Transactions

Related parties represent associated companies, major shareholders, directors and key management personnel and companies of which they are principal owners. Pricing policies and terms of these transactions are approved by the Board of Directors.

Balances with related parties included in the consolidated statement of financial position are as follows:

	Nature of relation	2009	2008
		U.S. $	U.S. $
Cash at Arab Bank	Major shareholder	18,991,802	11,633,706
Receivable from shareholders	Major shareholder	4,385,411	189,942
Payment on account of establishing an associate	Associate	70,000	-
Arab Bank long term loan	Major shareholder	46,548,000	58,140,000
Payable to Consolidated Contractors Company	Major shareholder	34,023	371,108
Payable to United Engineering Services	Sister company	160,000	-

The consolidated income statement includes the following transactions with related parties:

	Nature of relation	2009	2008
		U.S. $	U.S. $
Arab Bank finance cost	Major shareholder	2,030,750	4,069,759
Development and technical advisory services charged by United Engineering Services	Sister company	2,553,000	2,112,155
Consulting and service fee charged by Consolidated Contractors Company	Major shareholder	564,000	564,000
Compensation of key management personnel:			
Salaries and wages		602,075	591,611
Employees' end of service benefits		39,318	34,048
Board of directors remuneration		169,500	140,000

23. Income Tax

The PNA has agreed to exempt GPGC and its shareholders (with respect to dividends and earnings receivable from GPGC), for the term of the agreement of 20 years including any extensions thereof, from all Palestinian taxes.

24. Commitments and Contingencies

Commitment represents the difference between the contract gross amount and the executed portion of the contract at the financial statements date. The following are the Company's commitments as of the date of the financial statements:

- The Company has a commitment resulted from the long term service agreement related to maintenance which represents the difference between the contract gross amount of Swedish Krona (SEK) 179,000,000 (equivalent to U.S. $ 23,688,999) and the executed portion of the contract at the financial statements date. Commitment amounted to U.S. $ 11,848,417 and U.S. $ 15,929,329 as of December 31, 2009 and 2008, respectively. Further, the Company signed on November 11, 2009 a memorandum of understanding with the maintenance contractor to replace the exiting long term service agreement with a new long term maintenance program to suitably fit the current and future conditions and requirements of the Company. The agreement of new long term maintenance program must be signed by December 31, 2010 for it to be effective and the old long term service agreement to be cancelled.
- The Company has commitment on the lease of the land on which the power plant is constructed amounting to U.S. $ 2,646,000 for a period of 18 years starting from 2012 (note 6).

The Company together with other investors are working on establishing Palestine Power Generating Company, public shareholding company (the associate) in the West Bank with an initial share capital of U.S. $ 2,000,000 with an intention to increase the capital to U.S. $ 120,000,000 during the development of the power plant project intended to establish. The Company's board of directors agreed to invest in 41% of the share capital of the associate. As of the date of the financial statements, the establishment of the associate has not completed yet and no share capital contribution has been requested. The Company paid U.S. $ 70,000 on account of establishing the associate.

Future minimum capacity charge expected to be receivable under the power purchase agreement for the use of power plant in effect as of December 31, 2009 were as follows:

	2009	2008
	U.S. $	U.S. $
Within one year	29,622,024	29,361,312
After one year but less than five years	152,307,624	120,133,968
More than five years	260,428,848	330,703,584
	442,358,496	480,198,864

25. Fair Values of Financial Instruments

Financial instruments comprise of financial assets and financial liabilities. Financial assets consist of cash and cash equivalent, accounts receivable and some other current assets. Financial liabilities consist of long term loan and some other current liabilities.

The fair value of financial instruments, are not materially different from their carrying values.

26. Risk Management

The Company's principal financial liabilities comprise long term loan and some other current liabilities. The main purpose of these financial liabilities is to raise finance for the Company's operations. The Company has various financial assets such as accounts receivable, cash and cash equivalents, and some other current assets which arise directly from the Company's operations.

The main risks arising from the Company's financial instruments are interest rate risk, credit risk, liquidity risk, and foreign currency risk. The Company's Board of Directors reviews and approves policies for managing these risks which are summarized below.

Interest rate risk

The following table demonstrates the sensitivity of the consolidated income statement to reasonably possible changes in interest rates, with all other variables held constant.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the Company's profit for one year, based on the floating rate of financial assets and financial liabilities at December 31, 2009. There is no direct impact on the Company's equity.

	Increase/ decrease	Effect on profit for the year
	Basis points	U.S. $
2009		
U.S. Dollar	+10	(46,548)
U.S. Dollar	- 10	46,548
2008		
U.S. Dollar	+10	(46,606)
U.S. Dollar	- 10	46,606

Credit risk

The Company is currently exposed to credit risk as all GPGS's revenue from the use of the power plant to generate electric capacity is generated from one customer, PENRA. PENRA has not provided GPGC with required letter of credit of U.S. $ 20,000,000 as required by the power purchase agreement.

With respect to credit risk arising from the other financial assets, the Company's exposure to credit risk arises from the possibility of default of the counterparty, with a maximum exposure equal to the carrying amount of these other financial assets.

Liquidity risk

PEC and GPGC limit their liquidity risk by ensuring bank facilities are available and by maintaining adequate cash balances to meet their current obligations and to finance its operating activities and by following up on the collection of accounts receivable from PENRA. The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2009 & 2008 based on contractual undiscounted payments.

	Less than 3 months	3 to 12 months	More than 1 year up to 5 years	More than 5 years	Total
	U.S.$	U.S.$	U.S.$	U.S.$	U.S.$
December 31, 2009					
Long term loan	-	13,353,764	36,314,831	-	49,668,595
Other current liabilities	6,616,617	-	-	-	6,616,617
	6,616,617	13,353,764	36,314,831	-	56,285,212

	Less than 3 months	3 to 12 months	More than 1 year up to 5 years	More than 5 years	Total
	U.S.$	U.S.$	U.S.$	U.S.$	U.S.$
December 31, 2008					
Long term loan	-	14,427,986	51,724,206	-	66,152,192
Other current liabilities	2,383,312	-	-	-	2,383,312
	2,383,312	14,427,986	51,724,206	-	68,535,504

Foreign currency risk

The table below indicates the Company's foreign currency exposure, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the U.S. $ currency rate against foreign currencies, with all other variables held constant, on the consolidated income statement.

	Increase / decrease in EURO rate to U.S.$	Effect on Profit for the year	Increase / decrease in ILS rate to U.S.$	Effect on profit for the year	Increase / decrease in SEK rate to U.S.$	Effect on profit for the year
	%	U.S.$	%	U.S.$	%	U.S.$
2009						
U.S.$	+10	(29,862)	+10	(29,361)	+10	413,528
U.S.$	-10	29,682	-10	29,361	-10	(413,528)
2008						
U.S.$	+10	(51,962)	+10	(12,738)	+10	(121,429)
U.S.$	-10	51,962	-10	12,738	-10	121,429

Capital management

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the years ended December 31, 2009 and 2008. Capital comprises paid-in share capital, statutory reserve and retained earnings, and is measured at U.S. $ 74,986,394 and U.S. $ 74,002,969 as at December 31, 2009 and 2008, respectively.

27. Concentration of Risk in Geographic Area

PEC and GPGC are carrying out all of their activities in Gaza. Assets, which mainly comprise property, plant and equipment, are located in Gaza. The political and economical situation in the area increases the risk of carrying out business and could adversely affect PEC and GPGC performance and impacts the recoverability of their assets from operation.

28. Comparative Amounts

The corresponding figures for 2008 have been reclassified in order to conform with the presentation of the current year. Such reclassifications do not affect previously reported results and equity. There is no material effect on the opening balances in 2008; therefore, no opening statement of financial position has been presented.